

CIRCULAR LETTER

to

ALL COMMERCIAL BANKS

IN INDONESIA

Subject: Requirements and Procedure for Application for Use of
Government Bonds as Collateral for Commercial Banks
Participating in the Recapitalization Program

In respect of the issuance of Bank Indonesia Regulation Number 1/10/PBI/1999 dated December 3, 1999, concerning Portfolio of Government Bonds for Commercial Banks Participating in the Recapitalization Program, it is necessary to stipulate several matters pertaining to the implementation of this Bank Indonesia Regulation.

As is known, Article 9 paragraph (1) of Bank Indonesia Regulation Number 1/10/1999 dated December 3, 1999, concerning Portfolio of Government Bonds for Commercial Banks Participating in the Recapitalization Program stipulates that prior to February 1, 2000, Banks are permitted to secure Bonds in their possession as collateral with third parties with the approval of Bank Indonesia. Furthermore Article 9 paragraph (2) of this Bank Indonesia Regulation stipulates that the approval of Bank Indonesia may be issued if the Bank meets the following requirements:

1. The Bank is experiencing liquidity problems, including but not limited to violation of the Statutory Reserve stipulated by Bank Indonesia; and
2. The Bank holds short term interbank liabilities equal to at least 50% (fifty percent) of its liabilities falling due; and
3. The term of borrowings of the Bank secured with the abovementioned Bonds as collateral is not less than 2 (two) months.

In this regard, herewith are stipulated provisions for the implementation of the requirements and procedure for issuance of approval by Bank Indonesia of an application of a Bank to secure Bonds in its possession with third parties as collateral as follows:

I. REQUIREMENTS

I. REQUIREMENTS

1. The Bank is Experiencing Liquidity Problems

A Bank shall be categorized as a Bank experiencing liquidity problems in the event that:

- a. the Bank is unable to comply with the required Statutory Reserve for not less than 3 (three) consecutive working days or 5 (five) working days not in consecutive succession within a 2 (two) week period; or
- b. the balance of the demand deposit of the Bank at the end of a day is insufficient to meet the obligations of the Bank on that day;

following the enactment of Bank Indonesia Regulation No. 1/10/PBI/1999 dated December 3, 1999.

2. Interbank Liabilities

The interbank liabilities included in the calculation are net interbank liabilities with maturity or remaining maturity not exceeding 90 (ninety) days as per the date at which the Bank submits the application.

The liabilities immediately due and payable included in the calculation are other liabilities falling due as stipulated in the prevailing provisions concerning the Annual Financial Statement and Published Financial Statement, i.e., other liabilities falling due which encompasses the sum of balance sheet liabilities and equity (code 312, code 313, code 315, and code 316), interbank liabilities (code 12 and code 13), and other liabilities in foreign currencies (code 20, code 61, code 62, code 64, and code 99), at the balance sheet position 2 (two) weeks before the Bank submits its application.

Total current interbank liabilities included in the calculation are equal to 50% (fifty percent) of other liabilities falling due, based on each of the positions referred to above.

3. Term of Borrowing

The term of a borrowing received by a Bank against Bonds as collateral shall be not less than 2 (two) months from the effective date of the credit agreement between the Bank and its creditor.

II. PROCEDURE FOR APPLICATION FOR USE OF BONDS AS COLLATERAL

1. The Bank shall submit a letter of application for use of Bonds as collateral to the Directorate of Monetary Management, Bank Indonesia, with a copy to the relevant Directorate of Bank Supervision. This application shall be submitted with the following attached:

- a. Plan for use of the Bonds as collateral, stating at least the following:

1) Name of ...

- 1) Name of counterparty;
 - 2) Total borrowings received by the Bank;
 - 3) Effective date and maturity;
 - 4) Interest rate.
- b. Planned use of the funds, stating at least the following:
- 1) Purpose for use of the funds;
 - 2) Name of beneficiary;
 - 3) Details and amount of repayment of the liability;
 - 4) Date of maturity of the liability.
2. At the same time as the letter of application referred to in number 1 above, the Bank shall also submit an application for issue of a Certificate of Use of Bonds as Collateral (SKOD) to the Directorate of Monetary Management, Bank Indonesia, according to the sample letter presented in Appendix 1, with a copy to the relevant Directorate of Bank Supervision.
3. Pursuant to the recommendation of the relevant Directorate of Bank Supervision, the Directorate of Monetary Management of Bank Indonesia shall convey a letter of approval for use of Bonds as collateral, accompanied by the issuance of the SKOD to the applying Bank according to the sample letter presented in Appendix 2, with a copy to the relevant Directorate of Bank Supervision.
4. The Bank shall deliver a report on the actual use of the funds received from the sale of collateral to the Directorate of Bank Supervision with a copy to the Directorate of Monetary Management not later than 3 (three) working days after the execution of payment of the liability.

III. SANCTIONS

If in the future information comes to light that the data and information delivered by the Bank is not in accordance with the facts, the management of the Bank shall be liable to administrative sanctions as stipulated in Article 52 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998. These administrative sanctions are:

- a. Written warning; and/or
- b. Listing of the members of the management, employees of the Bank, and shareholders in the list of disgraced persons in banking.

IV. CONCLUDING PROVISIONS

The provisions of this Circular Letter shall come into force on December 10, 1999.

For the public to be informed, it is ordered that this Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Kindly be ...

Kindly be informed.

BANK INDONESIA

(signed)

ACHJAR ILJAS
DEPUTY GOVERNOR

Appendix 1 to Circular Letter of Bank Indonesia No. 1/5/DPNP dated December 10, 1999, concerning Requirements and Procedure for Application for Use of Government Bonds as Collateral for Commercial Banks Participating in the Recapitalization Program

Number: P-SKOD/(number)/(name of Bank)/(year)

To

BANK INDONESIA
Building B, 11th floor
Jl. M.H. Thamrin No. 2
Jakarta 10010

attn: Directorate of Monetary Management

Subject: Application for Issuance of Certificate of Use of Bonds as Collateral (SKOD)

Concerning our plan for use of Government Bonds owned by ourselves as collateral with, we hereby request your assistance in issuing an SKOD with the following details:

Bond Series :
Date of Maturity :
Amount secured as collateral : Rp
Date of expiration of guarantee : dd/mm/yy

Kindly be informed.

.... (place)....., (date)

President
Commissioner/
Commissioner

President Director

Revenue Stamp

(.....)

(.....)

cc: relevant Directorate of Bank Supervision

Appendix 2 to Circular Letter of Bank Indonesia No. 1/5/DPNP dated December 10, 1999, concerning Requirements and Procedure for Application for Use of Government Bonds as Collateral for Commercial Banks Participating in the Recapitalization Program

Number: P-SKOD/(number)/(name of Bank)/(year)

To

.....
.....
.....
.....

Subject: Certificate of Placement of Bonds as Collateral (SKOD)

We hereby inform you that your Bonds have been registered for securing as collateral with with details as follows:

Bond Series :
Date of Maturity :
Amount placed as collateral : Rp
Date of expiration of guarantee : dd/mm/yy

Kindly be informed.

Jakarta,

Money Market Transaction Settlement Section

(Section Head)